

WOODFORD COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2004

WOODFORD COUNTY SCHOOL DISTRICT

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Woodford County School District
Versailles, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Woodford County School District (the District) as of June 30, 2004 and for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 1, 2004 on our consideration of Woodford County School District's internal control structure and a report dated September 1, 2004, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The additional information shown on pages 38 through 45 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 46 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 10 and 44 through 45 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Carpenter, Mountjoy & Bruesler, P.C.

Lexington, Kentucky
September 1, 2004

**WOODFORD COUNTY PUBLIC SCHOOL DISTRICT – VERSAILLES, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2004**

As management of the Woodford County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the second year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$4.4 million in 2003 and \$7.3 million in 2004. This is an increase of \$2.9 million. The difference is attributable to expenditure of 2003 bond proceeds on a new middle school construction project. The funds had been designated in 2003 for that purpose.
- From 2003 to 2004, total general fund revenue increased by \$2.4 million, due to recording payments of a similar amount, which were made by the state on behalf of employees. Net of on-behalf payments, revenue from local sources decreased by 2%, and revenue from the state decreased 4%. After factoring federal and miscellaneous receipts, total revenue showed little variation. The weak economy continues to affect the district with a decline in distilled spirits tax revenue, slower growth in real properties, and a decline in interest on invested funds. PSC tax revenues experienced an increase due to settlement of taxpayer-appealed assessments.
- Among major funds, the General Fund had \$19 million in revenue, which consisted primarily of local property, utilities, and motor vehicle taxes, state funding (the SEEK program), and on-behalf payments. There were \$20 million in expenditures.
- The state mandated a salary increase of \$1,080 for teachers and 2.7% for classified staff that was not fully funded to the District. A Board priority is funding competitive salaries for all staff in order to enhance recruitment and retention, with an ultimate goal of improvement of student achievement. Therefore, the Board approved an additional 1% salary increase for certified staff and \$.25 per hour for classified staff. With the additional consideration of experience increments, total 2004 expenses for wages and salaries reflect an average 5% increase for Board employees, compared to their individual wages and salaries for the prior year.
- In order to further enhance student success, the Board has established literacy as another objective. Consistent with this initiative and our district's Comprehensive Plan, additional funds were allocated to schools on a per pupil basis to be used solely for literacy initiatives. The District is also committed to helping all children be successful in school. Therefore, it has committed considerable additional resources to lowering class size, thereby increasing personnel expense, primarily in the areas of instruction and student/school support services.
- During the spring of 2004, the Board renewed its contract with Superintendent Paul Stahler for an additional four-year term. Between 2003 and 2004, there has been no change in the composition of the Board or its officers.
- The District maintained its long-range plan for facilities during fiscal year 2004. The District continued construction of a new middle school. Substantial completion is projected for October 2004, with school move-in operations scheduled in order to permit occupancy for the second semester of 2004-2005. Settlement of a disputed facility claim yielded an additional \$262,000 in revenue for the building fund, which, along with other designated funds, was retained for future capital construction projects.

- The District's total debt in outstanding bonds decreased by \$1 million this year, with a 2004 balance of \$30.1 million, compared to \$31.2 million for 2003. At times, bonds are issued as the District renovates and builds new facilities consistent with the long-range facility plan and in keeping with Kentucky Department of Education's (KDE) stringent compliance requirements. However, there were no new bonds issued in 2004.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Taxes and intergovernmental revenues also support fixed assets and related debt.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The proprietary fund includes the food service and daycare operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on pages 21 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11 million.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2004

This is the second year that the District is following GASB 34 and comparing assets, liabilities, and net assets. 2004 Government Wide Net Assets compared to 2003 are as follows:

Table One:
Net Assets

	2004	2003
Current Assets	\$10,966,480	\$22,056,567
Noncurrent assets	32,827,337	21,583,777
Total assets	\$43,793,817	\$43,640,344
Current liabilities	\$3,387,854	\$2,265,413
Noncurrent liabilities	29,142,238	30,478,277
Total liabilities	\$32,530,092	\$32,743,690
Net assets		
Investment in capital assets (net of related debt)	\$2,303,779	(\$10,059,360)
Restricted	7,313,558	17,001,739
Unrestricted	1,646,388	3,954,275
Total net assets	\$11,263,725	\$10,896,654

The following is a significant current year transaction that has had an impact on the Statement of Net Assets:

Construction bond proceeds that were not fully expended on June 30, 2003, while they have been reduced during 2004, are still partially remaining, and are pending completion of the new school. This has resulted in excess construction fund cash and corresponding capital asset debt. Upon completion of the project in 2005, the resulting increased value of the building asset will offset the bond debt.

Table Two contains a comparison of capital assets between 2004 and 2003.

Table Two:
Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Total</u>
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$1,474,118	\$1,474,118			\$1,474,118	\$1,474,118
Land Improvements	147,950	158,870			147,950	158,870
Buildings and Building Improvements	16,322,358	17,115,706			16,322,358	17,115,706
Technology Equipment	339,970	338,786	\$3,261	\$4,525	343,231	343,311
Vehicles	1,075,377	1,105,869			1,075,377	1,105,869
General Equipment	453,712	296,935			453,712	296,935
Food Service Equipment			78,844	94,179	78,844	94,179
Construction in Progress	12,637,588	685,147			12,637,588	685,147
Total	\$32,451,073	\$21,175,431	\$82,105	\$98,704	\$32,533,178	\$21,274,135

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary Implications

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's budget is prepared according to Kentucky law and is based upon certain transactions on a basis of cash receipts, disbursements, and encumbrances. In Kentucky, the public school fiscal year is July 1 through June 30. Some programs relating to federal and state grants operate on a different fiscal year, but are, nevertheless, reflected in the overall budget. The Board, in compliance with statute, adopts a tentative budget by the end of May for the subsequent year. A working budget is adopted by the end of September for each fiscal year, following the determination of the enrollment at the beginning of the new school year, the tax assessments and rates that will be used to determine the property tax revenues, and the salaries for the new employees/positions.

The most significant budgeted fund is the General Fund. By law, the budget for the General Fund must have a minimum 2% contingency, based upon expenses for all non-construction funds. The Board adopted a working budget for fiscal year 2004 with a contingency of approximately \$774,000. This represents an 2.9% of the budgeted expense for all non-construction funds. Each construction project maintains its own contingency, which amounts to 5% for a major project.

Generally, there are no major subsequent adjustments to the budget adopted in September. Additional grants, however, as a part of the Special Revenue Fund, are added if/when they are awarded.

Comments on Budget Comparisons

- The District's total governmental fund revenues for the fiscal year ended June 30, 2004, net of interfund transfers and on-behalf revenue, were \$21 million.
- General fund budget compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item, with the ending actual balance being \$400 thousand more than budget. This was attributable primarily to increased local tax revenue, including the state's collection of taxpayers' previously omitted property taxes.
- The total cost of all programs and services was \$33 million, net of interfund transfers and on-behalf payments. This included expending \$12.2 million of prior year bond proceeds that were restricted to complete construction in progress.
- General fund budget compared to actual expenditures, excluding on-behalf payments, varied slightly from line item to line item with the ending actual balance being \$350 thousand less than budget, exclusive of contingency. Contingency budget to actual expenditures varied by \$774 thousand, due to planned, and mandated, preservation of those contingency funds.
- Expenditure functions that include personnel costs reflect a negative actual versus budget in the employee benefits category due to recording of unbudgeted on-behalf payments. On-behalf payments, as defined by KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, flexible spending medical reimbursement accounts, teacher retirement contributions, and administration fees. For the audited financial reports, such on-behalf payments were added to the District's related revenue and expense line items. It is notable that on-behalf payments represent state obligations and not District obligations. Therefore, they have not been included as part of the budgeting process for the General Fund. As a result, the variances between amounts budgeted for the General Fund and the actual results may be skewed by on-behalf payments. Further discussion of these can be found in Note R on page 37.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2004 and 2003.

Table Three:
Revenue and Expense Summary

		2004 \$	2003 \$
Revenues:			
	Local revenue sources	\$9,884,079	\$9,913,215
	State revenue sources	12,971,444	10,750,084
	Federal revenue sources	1,414,626	1,337,682
	Investments	222,125	71,669
	Other revenues	380,954	0
	Other sources	14,550	2,801
	Bond proceeds	0	17,865,000
	Total revenue	\$24,887,778	\$39,940,451
Expenses:			
	Instruction	\$15,356,878	\$12,873,699
	Student support services	734,054	592,683
	Instructional support services	746,093	683,849
	District administration	614,871	612,951
	School administration	1,094,322	903,812
	Business support	339,616	233,028
	Plant operation & maintenance	1,986,061	1,704,050
	Student transportation	1,334,425	1,089,780
	Central office support	182,219	159,678
	Facility acquisition and construction	11,671,597	2,103,387
	Community services	235,107	136,852
	Other expenses	2,311,169	1,977,680
	Total expenses:	\$36,606,412	\$23,071,449
Revenue in excess of expense:	* **	(\$11,718,634)	\$16,869,002

* Includes \$11.5 million expended in 2004 from carry-forward bond proceeds for construction project in process.

** In the above figures, on-behalf amounts of \$3 million are included for 2004, but are not included in 2003.

- There was a reclassification of expense in some areas, e.g. contingency to a stand-alone category from district administrative support, and community services to regular instruction and business support.
- The changes in the balances and transactions of individual funds, except as noted above, have not been material. Changes in final budget when compared to original are not material
- Under Kentucky statute, state SEEK funding is tied to District property assessments. In 2004, the District's property values increased considerably, because of a quadrennial total reassessment. Consequently, the state revenue decreased proportionately, causing a shift in funding percentages. In 2004, local revenue outweighed state funding. In 2004, exclusive of on-behalf payments, 49.7% of General Fund revenue was derived from local taxes and 49.5% from state funding, as compared with 48.8% and 50.6% respectively in fiscal 2003. This is illustrated in Table Four.

Table Four:
General Fund Revenue

<u>Revenue Source:</u>	<u>2004 \$</u>	<u>2004 %</u>	<u>2003 \$</u>	<u>2003 %</u>
Local Revenue	\$8,019,033	49.7%	\$8,197,177	48.8%
State Revenue	7,989,622	49.5%	8,505,162	50.6%
Federal & Other Sources	134,082	.8%	108,670	0.6%
Total Revenue	\$16,142,737	100.0%	\$16,811,009	100.0%

Site Based Decision Making (SBDM) Councils expended 70% of the general fund budget in 2004, compared to 64% in 2003. The majority of the Non-SBDM funds were allocated for transportation and services for children with special needs. The remaining shares were budgeted for district-wide initiatives and central support services. Table Five depicts the allocation of General Fund resources, which excludes on-behalf payments and fund transfers, for fiscal years 2004 compared with 2003.

Table Five:
General Fund Budget by Category

<u>Category</u>	<u>2004 \$</u>	<u>2004%</u>	<u>2003 \$</u>	<u>2003 %</u>
Employee Salaries & Benefits	\$14,382,468	78.9%	\$14,099,975	78.5%
Books, Supplies, Equipment	1,882,597	10.3%	1,599,523	8.9%
Contracted Services & Other	1,195,748	6.6%	1,136,330	6.3%
Contingency	774,080	4.2%	1,134,041	6.3%
Total	\$18,234,893	100.0%	\$17,969,869	100.0%

The high percentage of budget that has been allocated to personnel costs underlines the District's commitment to improving student achievement. It has been well documented that direct teacher-to-student instruction has the most impact on educational success.

It is also noteworthy that, in 2003, the District anticipated a reduction of 2004 state revenue because of a planned quadrennial total property reassessment. Accordingly, the contingency for 2003 was increased in order to set aside funds to cover the expected shortfall in 2004 state funding. The District's 2004 contingency budget returned to a level that is consistent with historical practice.

Business-Type Activity

The business-type activities of the District are the food service and daycare operations.

The greatest portion of the revenues for food service come from sales to students and others, plus federal and state contributions. The federal government also contributes commodities to assist with cost of food served. The District continues to monitor the food service operation to ensure that it does not require large contributions from the General Fund. Prices for meals and other products sold are increased from time to time to ensure that revenues are sufficient for this operation to be self-supporting.

Two facilities provide daycare for infant through pre-school age students. The daycare operation derives its revenue from tuition-paying students. The operation is continuously monitored to ensure that it is self-supporting, and tuition prices are adjusted as needed to accommodate that objective.

State Funding

In fiscal year 2004, the school district's state funding was threatened by the revenue shortfall experienced by the Commonwealth of Kentucky. The General Assembly adjourned in April 2004 without a legislature-adopted budget for the beginning of the 2005 fiscal year. School districts were advised by KDE about this potential, and the Governor's Office informed us of its plan to mandate a minimum 1.5% increase in District employees' salaries for 2005, to be funded with the District's 2003 ending balance. Since those funds had been previously budgeted and allocated to schools for the 2004 year, the District made plans to significantly cut expenditures for 2005 and impose a spending freeze at the Central Office level during the last several months of 2004. Some of those adjustments included amendment of the District's staffing formulas, a decrease in discretionary SBDM-allocated (Section Seven) funds, and reductions in district-wide programs as well as others that fell outside the preschool through grade twelve service areas. These actions have placed the District in a position to handle the unfunded mandate in a fiscally sound manner. Estimates of future state revenue continue to be uncertain: four months into the state's fiscal year and there is still no state budget. Consequently, funding to school districts could be significantly impacted in future years.

Contacting the District's Management

This financial report is designed to provide our citizens, taxpayers, and creditors with the general overview of the District's finances and to reflect the District's accountability for the funds it receives. Questions or comments regarding this report should be directed to Paul Stahler, Superintendent, or Gail Binder, Director of Finance and Budget, by mail at 330 Pisgah Pike, Versailles, KY 40383.

WOODFORD COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS

June 30, 2004

Assets	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 7,365,787	\$ 116,948	\$ 7,482,735
Inventory	-	49,299	49,299
Investments	3,013,185	-	3,013,185
Accounts receivable			
Taxes	227,096	-	227,096
Intergovernmental – State	31,590	-	31,590
Intergovernmental – Federal	88,714	42,554	131,268
Accounts receivable	29,033	2,274	31,307
Total current assets	10,755,405	211,075	10,966,480
Noncurrent Assets			
Bond issue costs	294,159	-	294,159
Non-depreciable assets	14,111,706	-	14,111,706
Capital assets - net	18,339,367	82,105	18,421,472
Total noncurrent assets	32,745,232	82,105	32,827,337
Total assets	\$ 43,500,637	\$ 293,180	\$ 43,793,817
Liabilities			
Current Liabilities			
Accounts payable	\$ 1,113,818	\$ (75)	\$ 1,113,743
Interest payable	498,211	-	498,211
Current portion of long-term obligations	1,310,000	-	1,310,000
Current portion of capital lease obligations	28,329	-	28,329
Deferred revenue	207,084	-	207,084
Other current liabilities	230,487	-	230,487
Total current liabilities	3,387,929	(75)	3,387,854
Noncurrent Liabilities			
Noncurrent portion of long-term liabilities	28,870,000	-	28,870,000
Noncurrent portion of capital lease obligations	21,070	-	21,070
Noncurrent portion of accrued sick leave	251,168	-	251,168
Total noncurrent liabilities	29,142,238	-	29,142,238
Total liabilities	\$ 32,530,167	\$ (75)	\$ 32,530,092
Net Assets			
Invested in capital assets, net of related debt	\$ 2,221,674	\$ 82,105	\$ 2,303,779
Restricted for:			
Capital projects	7,252,051	-	7,252,051
Debt service	61,507	-	61,507
Unrestricted	1,435,238	211,150	1,646,388
Total net assets	\$ 10,970,470	\$ 293,255	\$ 11,263,725

See independent auditor's report and accompanying
notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

FUNCTIONS/PROGRAMS

Governmental Activities:

	\$	15,692,574	\$	37,988	\$	2,697,782	\$	-	\$	(12,956,804)	\$	-	\$	(12,956,804)
Instruction														
Support services:														
Student		736,088		596		-			(735,492)				(735,492)	
Instruction staff		757,858		-		94,909			(662,949)				(662,949)	
District administrative		622,819		-		-			(622,819)				(622,819)	
School administrative		1,072,740		-		-			(1,072,740)				(1,072,740)	
Business		346,159		-		61,117			(285,042)				(285,042)	
Plant operation and maintenance		1,965,869		438		-			(1,965,431)				(1,965,431)	
Student transportation		1,358,468		24,575		38,381			(1,295,512)				(1,295,512)	
Central office		166,284		-		-			(166,284)				(166,284)	
Facilities acquisition and construction		-		-		-		366,337	366,337				366,337	
Community service activities		247,408		-		194,403			(53,005)				(53,005)	
Interest on long-term debt		1,367,213		-		-			(1,367,213)				(1,367,213)	
Other expenditures		176,819		-		-			(176,819)				(176,819)	
Total governmental activities		24,510,299		63,597		3,086,592		366,337	(20,993,773)				(20,993,773)	

Business-Type Activities:

Food service and summer feeding	1,413,273	865,548	444,199	76,615	-	(26,911)	(26,911)
Daycare	73,902	92,629	-	-	-	18,727	18,727
Total business-type activities	1,487,175	958,177	444,199	76,615	-	(8,184)	(8,184)
Total primary government	\$ 25,997,474	\$ 1,021,774	\$ 3,530,791	\$ 442,952	\$ (20,993,773)	\$ (8,184)	\$ (21,001,957)

General Revenues:

Property taxes	\$ 7,446,344	\$ -	\$ -	\$ 7,446,344
Delinquent property tax	39,638	-	-	39,638
Distilled spirits tax	115,380	-	-	115,380
Motor vehicle taxes	725,036	-	-	725,036
Utility taxes	1,228,538	-	-	1,228,538
Other taxes	185,374	-	-	185,374
Investment earnings	222,125	-	1,558	223,683
State aid formula grants	11,047,596	-	-	11,047,596
Gains on sale of fixed assets	880	-	105	985
Miscellaneous	346,671	-	9,783	356,454
Total general revenues	21,357,582	11,446	11,446	21,369,028
Change in net assets	363,809	3,262	3,262	367,071
Net assets - beginning	10,606,661	289,993	289,993	10,896,654
Net assets - ending	\$ 10,970,470	\$ 293,255	\$ 293,255	\$ 11,263,725

See independent auditor's report and accompanying notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2004

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 1,873,585	\$ 85,502	\$ 2,958,247	\$ 2,448,453	\$ 7,365,787
Investments	-	-	3,013,185	-	3,013,185
Accounts receivable					
Taxes	227,096	-	-	-	227,096
Intergovernmental – State	-	31,590	-	-	31,590
Intergovernmental – Federal	-	88,714	-	-	88,714
Other receivables	27,813	1,198	-	22	29,033
Total assets and resources	\$ 2,128,494	\$ 207,004	\$ 5,971,432	\$ 2,448,475	\$ 10,755,405
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 7,548	\$ (80)	\$ 1,106,350	\$ -	\$ 1,113,818
Current accrued sick leave payable	114,808	-	-	-	114,808
Deferred revenue	-	207,084	-	-	207,084
Accrued vacation	115,679	-	-	-	115,679
Total liabilities	238,035	207,004	1,106,350	-	1,551,389
Fund Balances					
Reserved for:					
Encumbrances	-	-	690,884	-	690,884
Retirement leave payable	68,180	-	-	-	68,180
Unreserved:					
Undesignated, reported in:					
General fund	1,822,279	-	-	-	1,822,279
Building funds	-	-	-	2,386,968	2,386,968
Construction funds	-	-	4,174,198	-	4,174,198
Debt service funds	-	-	-	61,507	61,507
Total fund balances	1,890,459	-	4,865,082	2,448,475	9,204,016
Total liabilities and fund balances	\$ 2,128,494	\$ 207,004	\$ 5,971,432	\$ 2,448,475	\$ 10,755,405

See independent auditor's report and accompanying notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2004

Total fund balance per fund financial statements	\$	9,204,016
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Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	32,451,073
--	------------

Certain assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	294,159
--	---------

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(30,978,778)</u>
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Net assets for governmental activities	\$	<u>10,970,470</u>
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WOODFORD COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2004

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources					
Property taxes	\$ 5,653,174	\$ -	\$ -	\$ 1,832,808	\$ 7,485,982
Motor vehicle taxes	725,036	-	-	-	725,036
Utility taxes	1,228,538	-	-	-	1,228,538
Distilled spirits taxes	115,380	-	-	-	115,380
Other taxes	185,374	-	-	-	185,374
Tuition and fees	29,314	-	-	-	29,314
Earnings on investments	82,217	267	139,306	335	222,125
Other local revenues	-	114,455	-	-	114,455
State sources					
SEEK	7,965,681	-	-	-	7,965,681
Other	3,066,787	1,043,834	-	895,142	5,005,763
Federal – indirect	15,128	1,399,498	-	-	1,414,626
Other revenues	118,954	-	-	262,000	380,954
Total revenues	<u>19,185,583</u>	<u>2,558,054</u>	<u>139,306</u>	<u>2,990,285</u>	<u>24,873,228</u>
Expenditures:					
Instruction	13,153,286	2,203,592	-	-	15,356,878
Support services:					
Student	734,069	(15)	-	-	734,054
Instruction staff	651,184	94,909	-	-	746,093
District administrative	614,871	-	-	-	614,871
School administrative	1,094,322	-	-	-	1,094,322
Business	278,499	61,117	-	-	339,616
Plant operation and maintenance	1,986,061	-	-	-	1,986,061
Student transportation	1,296,044	38,381	-	-	1,334,425
Central office	182,219	-	-	-	182,219
Facilities acquisition and construction	-	-	11,671,597	-	11,671,597
Community service activities	40,704	194,403	-	-	235,107
Debt service	-	-	-	2,149,832	2,149,832
Other	161,337	-	-	-	161,337
Total expenditures	<u>20,192,596</u>	<u>2,592,387</u>	<u>11,671,597</u>	<u>2,149,832</u>	<u>36,606,412</u>
Excess (deficit) of revenues over expenditures	<u>(1,007,013)</u>	<u>(34,333)</u>	<u>(11,532,291)</u>	<u>840,453</u>	<u>(11,733,184)</u>
Other Financing Sources (Uses)					
Proceeds from sale of bonds	-	-	-	-	-
Proceeds from sale of fixed assets	14,550	-	-	-	14,550
Operating transfers in	-	34,333	-	1,620,787	1,655,120
Operating transfers out	(34,333)	-	-	(1,620,787)	(1,655,120)
Total other financing sources (uses)	<u>(19,783)</u>	<u>34,333</u>	<u>-</u>	<u>-</u>	<u>14,550</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(1,026,796)</u>	<u>-</u>	<u>(11,532,291)</u>	<u>840,453</u>	<u>(11,718,634)</u>
Fund Balance, July 1, 2003	<u>2,917,255</u>	<u>-</u>	<u>16,397,373</u>	<u>1,608,022</u>	<u>20,922,650</u>
Fund Balance, June 30, 2004	<u>\$ 1,890,459</u>	<u>\$ -</u>	<u>\$ 4,865,082</u>	<u>\$ 2,448,475</u>	<u>\$ 9,204,016</u>

See independent auditor's report and accompanying notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year ended June 30, 2004

Net change in total fund balances per fund financial statements	\$ (11,718,634)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	11,289,310
Bond accrued interest, capital lease payments and bond payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	822,285
Bond issuance costs are recognized as expenditures of current financial resources in the fund financial statement but are capitalized and amortized in the statement of activities. This amount is the current year amortization expense.	(15,482)
Gains and losses are not presented in this financial statement because they do not provide or use current financial resources, but they are presented in the statement of activities.	<u>(13,670)</u>
Change in net assets of governmental activities	\$ <u>363,809</u>

WOODFORD COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2004

	Food Service and Summer Feeding Fund	Other Enterprise Funds	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 75,467	\$ 41,481	\$ 116,948
Inventory	49,299	-	49,299
Accounts receivable			
Taxes – current	-	-	-
Taxes – delinquent	-	-	-
Accounts receivable	120	2,154	2,274
Intergovernmental – state	-	-	-
Intergovernmental – indirect federal	42,554	-	42,554
Intergovernmental – direct federal	-	-	-
Interest receivable	-	-	-
Investments	-	-	-
Total current assets	<u>167,440</u>	<u>43,635</u>	<u>211,075</u>
Noncurrent Assets			
Capital assets	451,092	-	451,092
Less: accumulated depreciation	(368,987)	-	(368,987)
Investments	-	-	-
Total noncurrent assets	<u>82,105</u>	<u>-</u>	<u>82,105</u>
Total assets	<u>\$ 249,545</u>	<u>\$ 43,635</u>	<u>\$ 293,180</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ (75)	\$ -	\$ (75)
Accrued payroll and related expenses	-	-	-
Deferred revenue	-	-	-
Due to other funds	-	-	-
Current portion of long-term obligations	-	-	-
Accrued sick leave	-	-	-
Total current liabilities	<u>(75)</u>	<u>-</u>	<u>(75)</u>
Noncurrent Liabilities			
Noncurrent portion of long-term liabilities	-	-	-
Noncurrent portion of capital leases	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets			
Invested in capital assets, net of related debt	82,105	-	82,105
Unrestricted	<u>167,515</u>	<u>43,635</u>	<u>211,150</u>
Total net assets	<u>\$ 249,620</u>	<u>\$ 43,635</u>	<u>\$ 293,255</u>

See independent auditor's report and accompanying
notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

Year ended June 30, 2004

	Food Service and Summer Feeding Fund	Other Enterprise Funds	Total
Operating Revenues:			
Lunchroom sales	\$ 865,548	\$ -	\$ 865,548
Other operating revenues	<u>9,783</u>	<u>92,629</u>	<u>102,412</u>
Total operating revenues	<u>875,331</u>	<u>92,629</u>	<u>967,960</u>
Operating Expenses:			
Salaries and wages	606,344	69,004	675,348
Materials and supplies	785,765	3,696	789,461
Depreciation	19,831	-	19,831
Other operating expenses	<u>1,333</u>	<u>1,202</u>	<u>2,535</u>
Total operating expenses	<u>1,413,273</u>	<u>73,902</u>	<u>1,487,175</u>
Operating income (loss)	(537,942)	18,727	(519,215)
Non-Operating Revenues:			
Federal grants	426,451	-	426,451
Donated commodities	76,615	-	76,615
Other revenue	105	-	105
State grants	17,748	-	17,748
Interest income	<u>1,558</u>	<u>-</u>	<u>1,558</u>
Total non-operating revenues	<u>522,477</u>	<u>-</u>	<u>522,477</u>
Net income (loss)	(15,465)	18,727	3,262
Net assets, July 1, 2003	<u>265,085</u>	<u>24,908</u>	<u>289,993</u>
Net assets, June 30, 2004	\$ <u>249,620</u>	\$ <u>43,635</u>	\$ <u>293,255</u>

See independent auditor's report and accompanying
notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year ended June 30, 2004

Cash Flows from Operating Activities

Cash received from:

Lunchroom sales	\$ 864,301
Government grants	447,980
Other activities	179,132

Cash paid to/for:

Employees	(675,348)
Supplies	(832,644)
Other activities	<u>(2,535)</u>

Net cash used in operating activities (19,114)

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets (3,232)

Cash Flows from Investing Activities

Receipt of interest income 1,558

Net decrease in cash and cash equivalents (20,788)

Balance, beginning of year 137,736

Balance, end of year \$ 116,948

Reconciliation of operating income to net cash
used in operating activities

Operating income \$ 3,262

Adjustments to reconcile operating income to net cash
used by operating activities

Depreciation	19,831
Interest	(1,558)
Change in assets and liabilities	
Receivables	2,534
Inventory	(43,108)
Accounts payable	<u>(75)</u>

Net cash used in operating activities \$ (19,114)

See independent auditor's report and accompanying
notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2004

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 422,549
Accounts receivable	<u>552</u>
Total assets	\$ <u>423,101</u>
Liabilities	
Accounts payable	\$ 11,334
Due to student groups	<u>411,767</u>
Total liabilities	\$ <u>423,101</u>

See independent auditor's report and accompanying
notes to financial statements

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Woodford County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Woodford County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Woodford County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Woodford County Board of Education Finance Corporation – On December 10, 1990 the Board of Education resolved to authorize the establishment of the Woodford County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Woodford County Board of Education also comprise the Corporation's Board of Directors.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 46 through 47. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan. This is a nonmajor fund of the District.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a nonmajor fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a nonmajor fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service and Summer Feeding Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

II. Proprietary Fund Type (Enterprise Fund) - continued

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2004 were \$.465 per \$100 valuation for real property, \$.492 per \$100 valuation for business personal property and \$.509 per \$100 valuation for motor vehicles.

The District levies a 3.0% utility tax on all businesses and households within the District.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave and Vacation

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Upon retirement or separation from the school district, an employee is also entitled to a payout of their accrued vacation. Vacation is accrued at varying rates depending upon length of service. The maximum vacation accrual is 327.99 hours unless the employee had already accrued more than 327.99 hours when the vacation policy was adopted.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Budgetary amendments are made during the year to reflect new revenue sources and the receipt of the District's growth calculation.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

Inventory is stated at cost using the specific identification method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

GASB 31 requires investments to be carried at fair value with unrealized changes being recorded in the statements of revenues, expenditures and changes in fund balance. The District invests in U.S. Treasuries, whose cost approximates fair value.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, capital leases, accumulated sick leave, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – SUBSEQUENT PRONOUNCEMENTS

In March 2003, the Governmental Accounting Standards Board issued Statement No. 40 "Deposit and Investment Risk Disclosures" which will be effective for the District for the year ended June 30, 2005. This statement will change the disclosure required for deposit and investment accounts.

NOTE C – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE D – CASH AND CASH EQUIVALENTS

The District's cash deposits are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less. All deposits of the District are classified as Category 1.

Cash and cash equivalents at June 30, 2004 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
United Bank	\$ 9,664,817	\$ 7,863,506
National City Bank	<u>41,778</u>	<u>41,778</u>
	<u>\$ 9,706,595</u>	<u>\$ 7,905,284</u>

Breakdown per financial statements:

Governmental funds	\$ 7,365,787
Proprietary funds	116,948
Agency funds	<u>422,549</u>
	<u>\$ 7,905,284</u>

NOTE E – INVESTMENTS

The District is allowed by state statute to invest in U.S. government agencies and U.S. treasuries which are obligations of the United States Government pledged by its full faith and credit. The District's investments are categorized to give an indication of the level of risk assumed.

Category 1	Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
Category 2	Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
Category 3	Deposits which are not collateralized or insured.

The District has investments in United States treasury certificates with a cost of \$3,013,185. The cost of these investments approximates fair market value as of June 30, 2004. All investments held by the District are classified as Category 1.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

<u>Governmental Activities</u>	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
<u>Cost</u>				
Land	\$ 1,474,118	\$ -	\$ -	\$ 1,474,118
Land improvements	218,394	-	-	218,394
Buildings	28,161,771	2,904	-	28,164,675
Technology	3,257,980	204,110	353,838	3,108,252
Vehicles	3,095,789	182,883	204,335	3,074,337
General equipment	750,370	216,056	9,305	957,121
Construction in progress	685,147	11,952,441	-	12,637,588
Totals at historical cost	<u>37,643,569</u>	<u>12,558,394</u>	<u>567,478</u>	<u>49,634,485</u>
 <u>Accumulated Depreciation</u>	 Balance July 1, 2003	 Depreciation	 Disposals	 Balance June 30, 2004
Land improvements	\$ 59,524	\$ 10,920	\$ -	\$ 70,444
Buildings	11,046,065	796,252	-	11,842,317
Technology	2,919,194	190,919	341,831	2,768,282
Vehicles	1,989,920	213,375	204,335	1,998,960
General	453,435	57,616	7,642	503,409
Total accumulated depreciation	<u>16,468,138</u>	<u>1,269,082</u>	<u>553,808</u>	<u>17,183,412</u>
 <u>Government Activities</u>				
Depreciable capital assets	19,016,167			18,339,367
Non-depreciable capital assets	<u>2,159,264</u>			<u>14,111,706</u>
Total government activities capital assets, net	\$ <u>21,175,431</u>			\$ <u>32,451,073</u>
 <u>Business-Type Activities</u>	 Balance July 1, 2003	 Additions	 Disposals	 Balance June 30, 2004
<u>Cost</u>				
Food service and equipment	\$ 427,370	\$ 1,345	\$ 5,991	\$ 422,724
Technology equipment	26,481	1,887	-	28,368
Totals at historical cost	<u>453,851</u>	<u>3,232</u>	<u>5,991</u>	<u>451,092</u>
 <u>Accumulated Depreciation</u>	 Balance July 1, 2003	 Depreciation	 Disposals	 Balance June 30, 2004
Food service equipment	333,191	16,679	5,991	343,879
Technology equipment	21,956	3,152	-	25,108
Total accumulated depreciation	<u>355,147</u>	<u>19,831</u>	<u>5,991</u>	<u>368,987</u>
Total business-type activities capital assets, net	\$ <u>98,704</u>			\$ <u>82,105</u>

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE F – CAPITAL ASSETS - CONTINUED

Depreciation expense for the year ended June 30, 2004 for governmental activities by function is summarized below:

Instructional	\$ 978,746
Instruction Student Support	4,268
Instruction Staff Support	15,842
District Administration	9,932
School Administration	9,082
Business Support Services	8,767
Plant Operations and Maintenance	14,851
Student Transportation	213,443
Central Office Support Services	959
Community Services	<u>13,192</u>
Total	\$ <u>1,269,082</u>

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1992	\$ 4,165,000	5.250% - 5.700%
1994	750,000	4.700% - 6.000%
1996A	215,000	4.875% - 5.650%
1996B	7,675,000	4.200% - 4.300%
1998	6,000,000	1.000% - 4.300%
2003	17,865,000	2.000% - 4.250%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Woodford County Board of Education Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1987 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. As of June 30, 2004 the total bond principal and interest due was \$30,180,000 and \$13,573,069, respectively. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2004 for debt service (principal and interest) are as follows:

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE G -- BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

	Woodford County School Board		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2004-2005	\$ 908,471	\$ 1,102,995	\$ 401,529	\$ 128,590	\$ 1,310,000	\$ 1,231,585
2005-2006	946,634	1,066,625	353,366	111,341	1,300,000	1,177,966
2006-2007	975,415	1,033,513	369,585	95,121	1,345,000	1,128,634
2007-2008	1,014,819	998,624	275,181	80,447	1,290,000	1,079,071
2008-2009	1,049,755	961,701	285,245	67,459	1,335,000	1,029,160
2009-2010	1,091,133	922,068	298,867	53,838	1,390,000	975,906
2010-2011	1,135,411	877,787	169,589	42,423	1,305,000	920,210
2011-2012	1,183,156	829,457	116,844	34,782	1,300,000	864,239
2012-2013	1,232,243	776,703	122,757	28,140	1,355,000	804,843
2013-2014	1,290,204	719,323	129,796	21,099	1,420,000	740,422
2014-2015	1,353,128	658,437	126,872	13,958	1,480,000	672,395
2015-2016	1,420,792	592,603	104,208	7,515	1,525,000	600,118
2016-2017	1,488,038	521,903	81,962	2,297	1,570,000	524,200
2017-2018	1,555,000	457,353	-	-	1,555,000	457,353
2018-2019	1,610,000	398,981	-	-	1,610,000	398,981
2019-2020	1,675,000	336,341	-	-	1,675,000	336,341
2020-2021	1,740,000	269,088	-	-	1,740,000	269,088
2021-2022	1,815,000	197,988	-	-	1,815,000	197,988
2022-2023	1,890,000	122,706	-	-	1,890,000	122,706
2023-2024	1,970,000	41,863	-	-	1,970,000	41,863
	<u>\$ 27,344,199</u>	<u>\$ 12,886,059</u>	<u>\$ 2,835,801</u>	<u>\$ 687,010</u>	<u>\$ 30,180,000</u>	<u>\$ 13,573,069</u>

During the year ended June 30, 2004 the District made no additional borrowings and paid principal payments of \$1,075,000.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE H – CAPITAL LEASE PAYABLE

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2004:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2005	\$ 28,329
2006	16,836
2007	6,543
2008	<u>2,414</u>
Total minimum lease payments	54,122
Less: Amount representing interest	<u>4,723</u>
Present Value of Net Minimum Lease Payments	\$ <u>49,399</u>

The leased property under capital leases has a cost of \$50,850.

NOTE I – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2004 as follows:

Year ending June 30:

2005	\$ 26,602
2006	14,040
2007	<u>12,063</u>
Total minimum payments	\$ <u>52,705</u>

Rent expense for the year ended June 30, 2004 was \$27,744.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE J – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program at 12.305%.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 7.34% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$16,362,266. The payroll for employees covered under KTRS was \$12,183,540 and for CERS was \$3,869,426.

The contribution requirement for CERS for the year ended June 30, 2004 was \$477,437 which consisted of \$284,016 from the Board and \$193,471 from the employees. The contribution requirement for KTRS is \$82,039 from the District and \$1,200,688 from the employees. The District's KTRS contribution is paid from federal grant monies for federally funded employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2003	CERS June 30, 2003
Assets available for benefits, at fair value	\$ 13,863,786,000	\$ 5,286,580,047
Pension benefit obligation	(16,594,781,000)	(4,417,597,802)
(Underfunded)/overfunded pension benefit obligations	\$ (2,730,995,000)	\$ 868,982,245

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2003 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE K - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE L - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

NOTE M - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE N - RISK MANAGEMENT

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE O - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Construction Fund	\$	11,532,291
Food Service		15,465
General		1,026,796

NOTE P - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

WOODFORD COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2004

NOTE Q - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 34,333
Operating	Capital Outlay	Debt Service	Debt Service	344,360
Operating	Building	Debt Service	Debt Service	1,276,427

NOTE R - ON-BEHALF PAYMENTS

For the year ended June 30, 2004 total payments of \$3,042,846 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. These revenues and expenditures are not budgeted by the District.

NOTE S - COMMITMENTS

During the year ended June 30, 2003 the District entered into a construction contract to build a new middle school. Construction on this project began in May 2003 and is expected to be completed in late 2004. Remaining amounts due are included in accounts payable or in encumbrances on the balance sheet.